

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6526**

**BILL NUMBER:** HB 1308

**NOTE PREPARED:** Dec 12, 2010

**BILL AMENDED:**

**SUBJECT:** Income Tax Exemption for Military Pay.

**FIRST AUTHOR:** Rep. Truitt

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill exempts military pay earned by members of an active component of the United States Armed Forces from the individual income tax. (Current law exempts from the individual income tax military pay earned by members of the National Guard and Reserve components of the United States Armed Forces while serving on active duty.) It also repeals the provision that defines qualified military income for purposes of calculating an individual's Adjusted Gross Income.

**Effective Date:** January 1, 2011 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the deduction changes relating to the exemption of military pay earned by members of an active component of the United States Armed Forces. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** *Summary* - The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers receiving military service income as members of an active component of the armed forces. The revenue loss from the bill could potentially total \$10.7 M to \$10.9 M in FY 2012, with the revenue loss increasing by about 2.2% to 2.7% annually thereafter.

**Background Information** - The bill provides a full exemption for active duty pay earned by Armed Forces Reserve and National Guard members in lieu of the current \$5,000 deduction. (Note: Currently, combat pay is excluded from federal gross income and, as a result, is excluded from Indiana AGI.) The full exemption is effective beginning in tax year 2011, so the fiscal impact would begin in FY 2012. Revenue from the AGI

Tax on individuals is deposited in the state General Fund.

Under current statute, a taxpayer may deduct up to \$5,000 in military service income from state AGI. This includes military retirement provided the recipient is 60 years old or older. State tax data indicates that 40,922 taxpayers claimed the deduction for military service pay and retirement benefits in tax year 2008, deducting approximately \$192.4 M in military pay and retirement benefits. This amount resulted in a revenue loss of about \$6.5 M. The military pay exemption provided by the bill would increase the total annual active duty pay deducted from AGI by about \$315.9 M to \$320.5 M in tax year 2011, with a tax impact of about \$10.7 M to \$10.9 M. [The revenue losses attributable to this bill are in addition to the revenue losses which are occurring under the current deduction limits.]

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed increase in the military service income deduction would decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a decrease in revenue from these taxes.

**State Agencies Affected:** DOR.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** Tyler Benz, Office of the Secretary of Defense, Defense Manpower Data Center.

**Fiscal Analyst:** Jessica Harmon, 317-232-9854.